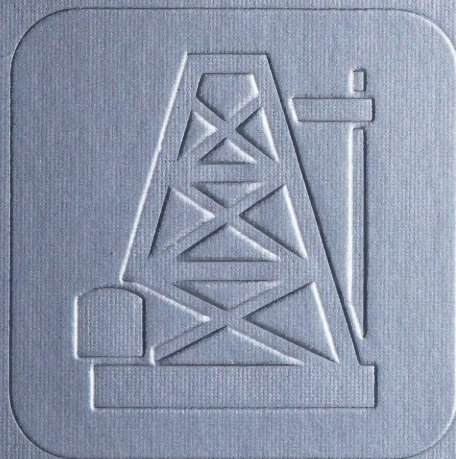
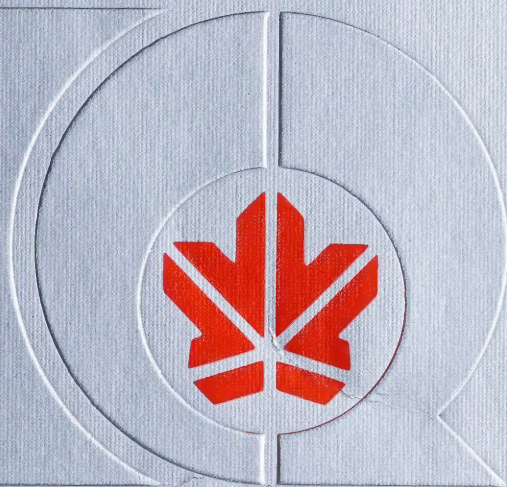


Canadian Reserve Oil and Gas Ltd.



ANNUAL REPORT 1979

CONTENTS

Corporate Information . . .	Inside Front Cover
Highlights	1
To the Shareholders	2
Company Profile	5
Exploration and Development	6
Operations	15
Financial Review	18
Five Year Summary	28

ANNUAL MEETING

The Annual General Meeting of Shareholders of the Company will be held at the Calgary Inn, Calgary, Alberta, on April 8, 1980 at 10:00 a.m. (Calgary Time)

Highlights



Calgary Headquarters of Canada's Oil Industry.

(Dollar amounts in thousands except per share figures)

	1979	1978	% Change
Gross Revenue	\$32,031	\$23,769	+35
Cash Flow	\$17,111	\$13,713	+25
Per Share	\$ 1.74	\$ 1.42	
Net Earnings	\$ 8,226	\$ 6,885	+19
Per Share	\$.84	\$.71	
Working Capital at Year End	\$ 9,900	\$ 7,540	+31
Property & Equipment Additions	\$18,867	\$17,111	+10
Oil and Natural Gas Liquids Sales (Before Royalty Deduction)			
*M ³	360,301	334,348	+8
M ³ Per Day	987	916	
Natural Gas Sales (Before Royalty Deduction)			
**10 ³ M ³	232,463	187,487	+24
10 ³ M ³ Per Day	637	512	
Wells Drilled — Net			
Oil	53	48	
Gas	7	15	
Dry	19	13	
Total	79	76	
Acreage — Net Working Interest	1,317,621	1,341,723	
Outstanding Shares	9,837,137	9,664,837	+2

* M³ — cubic meters

** 10³ M³ — thousands of cubic meters

To convert cubic meters to barrels multiply by 6.3

To convert cubic meters to cubic feet multiply by 35.5

To the Shareholders



I am pleased to report a year of continued growth by Canadian Reserve Oil and Gas Ltd. All segments of the Company's operations continued to expand as planned. Satisfactory gains were achieved in each financial area and the Company can report a record financial performance for the year ended December 31, 1979. Higher prices for oil and natural gas, together with increased sales volumes, are directly responsible for this record financial year.

Gross revenue increased by 35% to \$32,031,000 or \$3.26 per share, and cash flow increased by 25% to \$17,111,000 or \$1.74 per share. Cash flow before income tax was \$18,615,000 or 25% greater than in 1978. Net earnings increased 19% to \$8,226,000 or \$.84 per share as compared with \$.71 per share for the previous year.

Gross sales of oil and natural gas liquids were 987 m³/d and gross natural gas sales were 637 10³ m³/d. Gross sulphur sales for the year totalled 53,956 tonnes.

In 1979 the Company continued with an active exploration and development program which it had begun in 1978 in the heavy oil areas of Alberta and Saskatchewan. Its land holdings in this area — varying interests in approximately 500,000 acres — made it relatively easy for the Company to expand its operations and in a short period of time generate revenues. The company has budgeted for capital expenditures of \$6,200,000 in 1980 in the heavy oil areas.

The Company continued the development of the Macklin pool in the Province of Saskatchewan, and, as a result has placed on production approximately 150 gross m³/d of oil.

The fireflood and steam stimulation pilot project at Eyehill in Saskatchewan which was instituted in 1978 was further expanded in 1979 with initial operations to commence in May, 1980.

It is estimated that there is in the order of 2 10⁹ m³ of original oil in place in the heavy oil areas of Saskatchewan and Alberta. The portion of the oil in place controlled by Canadian Reserve in the heavy oil areas is significant to the future plans of the Company. With the application of the Company's current enhanced recovery schemes, such as the fireflood and steam stimulation and caustic pilot projects, current production rates and recoveries could be increased several fold over those experienced under primary recovery. These types of schemes, however, require a large input of capital and to make such schemes economically viable, price increases, reduced royalties and tax rates, or a combination of both are required.



The Company consummated a Joint Venture Agreement in 1979 with Pool Petrol Investments Canada Ltd. The agreement, effective July 1, 1979, is for a period of three years and involves an expenditure by Pool Petrol Investments Canada Ltd. of \$30,000,000 on exploration. These funds will permit expansion of exploration activity in western Canada. The program involves virtually all areas of the Western Canadian Basin, including geological prospects in the Deep Shelf and Foothills regions of western Alberta and British Columbia.

On November 2, 1979, the Board of Directors of Reserve Oil and Gas Company, the major shareholder in Canadian Reserve, approved a definitive agreement with Getty Oil Company of Los Angeles providing for the merger of Reserve Oil and Gas Company into Getty Oil Company. The total value of the transaction, based upon outstanding common and preferred stock, warrants and options, is estimated at \$628,000,000. The Getty Oil Company proposal followed the termination of an earlier agreement with Denison Mines Limited which was mutually terminated by the respective Boards of Directors.

The agreement with Getty Oil Company was submitted to a vote of Reserve Oil and Gas Company shareholders at a special meeting held December 28, 1979, and the transaction was approved. The agreement was effective January 23, 1980, and, at that time Reserve Oil and Gas Company was merged into Getty Oil Company and Reserve Oil and Gas Company was liquidated.

As a consequence of the merger, Canadian Reserve now has a new major shareholder, which intends to increase significantly the funds available for exploration and development of new oil and natural gas reserves. Getty Oil Company has extensive experience in the recovery of heavy oil and intends to make available to Canadian Reserve this expertise for appli-

cation to enhanced recovery methods for the existing inplace reserves of heavy oil. Without doubt these additional funds and new expertise will usher in a new era for Canadian Reserve.

While we look forward to our new relationship with Getty Oil Company, I would like to express, on behalf of all the employees of Canadian Reserve, our appreciation to Reserve Oil and Gas Company for their contributions toward the success of Canadian Reserve Oil and Gas Ltd. To the officers and employees of Reserve Oil and Gas Company, who worked with us through a period of rapidly expanding operations, we express our sincere thanks.

In 1979, the Company made two changes in senior management. Gus Czeman was appointed Vice-President, Operations and Bruce F. Sim was appointed Vice-President, Legal and Administration.

The Company plans an aggressive exploration and development program for 1980 and with a continued high level of dedication and accomplishment on the part of our employees, we should fulfill these plans. The Board of Directors appreciate this dedication, and I thank the employees for their continued outstanding performance and support.

For the Board of Directors,

R. Bruce Bailey
President



Company Profile



Canadian Reserve Oil and Gas Ltd., successor to Fargo Oils Ltd., is an Alberta incorporated company engaged in exploration, development and production of oil and natural gas, primarily in western Canada. The Company has interests in petroleum and natural gas lands, pipelines, gas processing facilities and mining properties.

The corporate office is located in Calgary, Alberta and is currently staffed with 68 employees. In addition, the Company maintains a district office at Lloydminster, Alberta, staffed with 37 employees.



B. F. Sim

Vice President Legal and Admin.



R. W. Ambrose

Vice President Exploration



J. R. Dundas

Senior Vice President



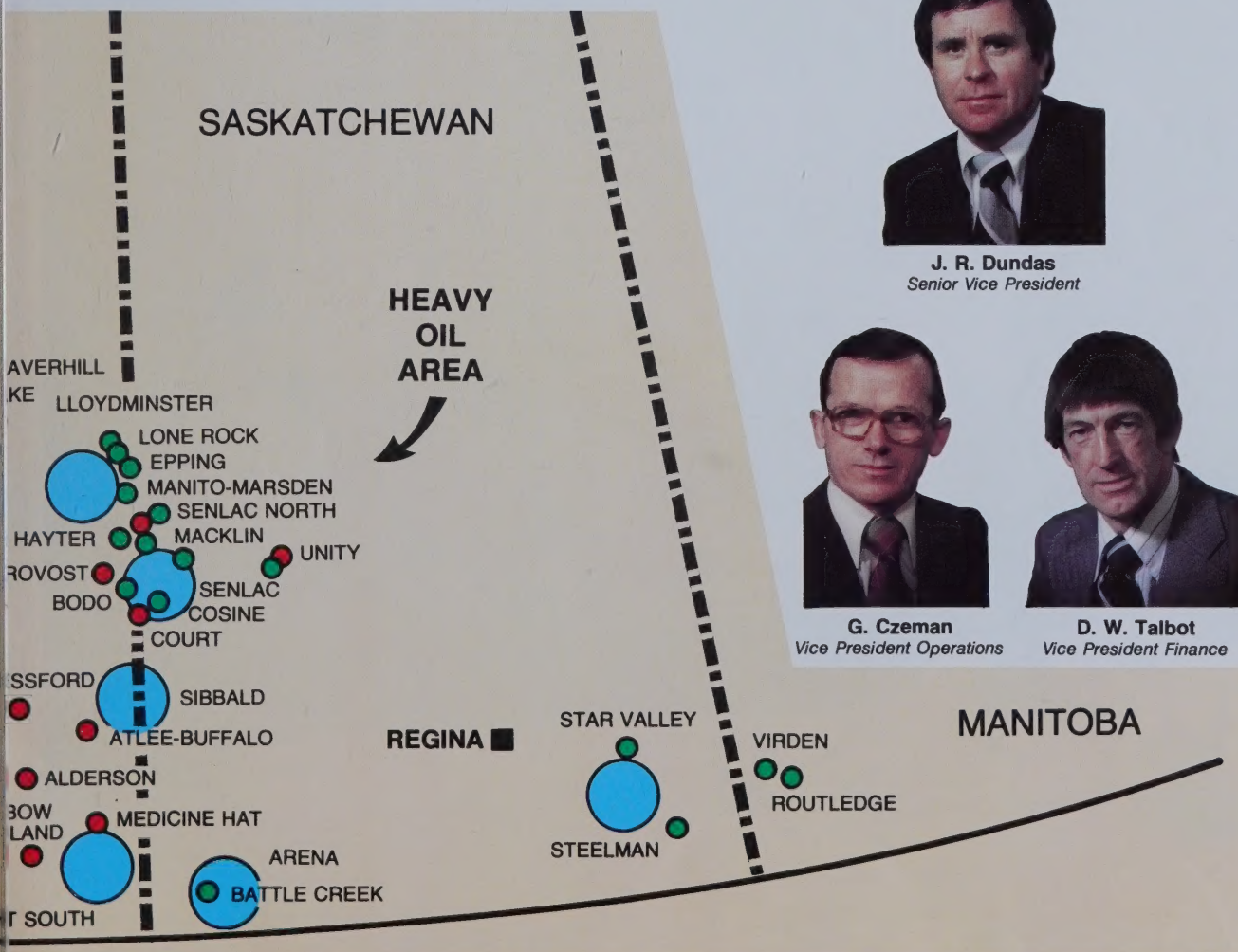
G. Czeman

Vice President Operations



D. W. Talbot

Vice President Finance



Exploration and Development



Drilling in North Eastern British Columbia.



In 1979, Canadian Reserve actively continued its exploration and development program. The Company participated in 97 exploratory wells of which 1 was drilled in northeastern British Columbia, 15 were drilled in Alberta and 81 were drilled in the heavy oil areas of Alberta and Saskatchewan.

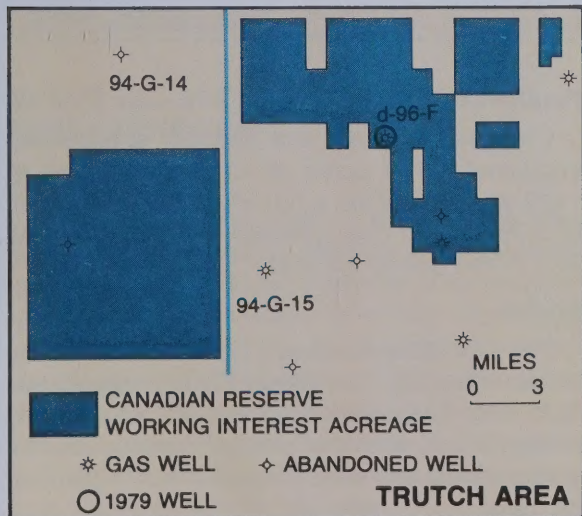
Following are the significant areas in which the Company concentrated its exploration and development efforts in 1979.

BRITISH COLUMBIA

In northeastern British Columbia, the Company's exploration activity was centered in the Trutch and Grizzly Valley North areas, where additional natural gas reserves have been established.

Trutch

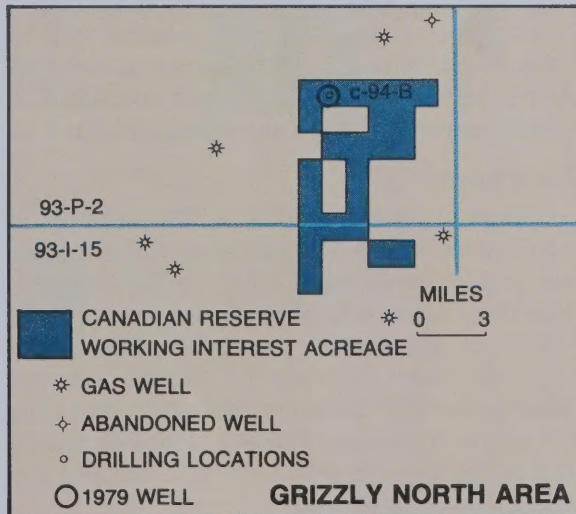
At Trutch, the Company completed 1 natural gas well during 1979, and established gas reserves in two formations. The well, on a drill stem test, yielded $48 \times 10^3 \text{ m}^3/\text{d}$ from the Debolt formation and on an absolute open flow test yielded $99 \times 10^3 \text{ m}^3/\text{d}$ from the Middle Devonian Carbonate formation. A drilling reservation comprising 16,309 acres was purchased in 1979.



Seismic Activity in Alberta.

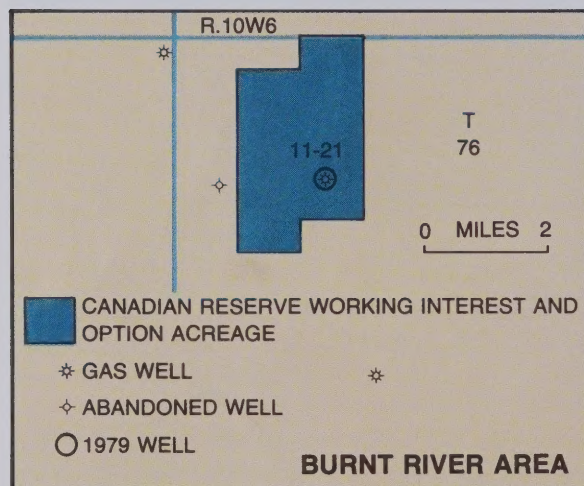
Grizzly North

Canadian Reserve and partners hold a 17,588 acre drilling reservation in this natural gas prone area. The Halfway, Baldonnel and Nikanassin formations are the primary producing horizons in the Foothills trend where reserves are proven in the Grizzly Valley field. A pipeline was completed in 1979 from Grizzly Valley to the Westcoast transmission system which will enable Canadian Reserve to gain access to the markets for any new reserves discovered.



Canadian Reserve acquired 55 miles of seismic data during 1979 and has defined several large features, some of which are of the same order of magnitude as the main Grizzly Valley structures.

The Company and its partners have drilled an encouraging Doig test on the drilling reservation.



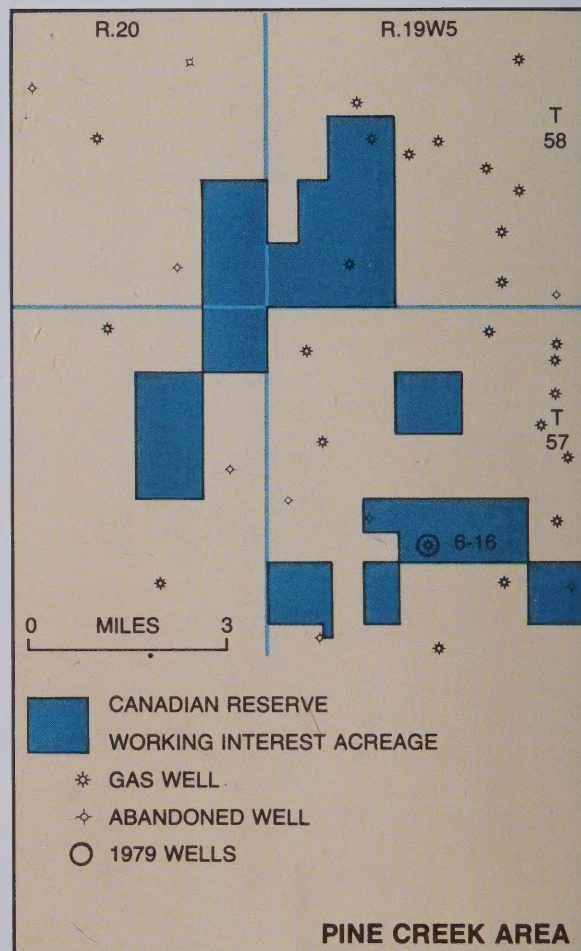
ALBERTA

Wembley

Canadian Reserve and partners each hold a 25% interest in four licenses, totalling 27,040 acres in the Elmworth area. Using sophisticated seismic techniques, the group was successful in locating several Halfway bar developments.

Burnt River

Canadian Reserve holds a 25% interest in 3,840 acres in the Valhalla area where natural gas and oil have been found in the Halfway, Boundary Lake and Doe Creek formations. Further oil and natural gas reserves appear to exist in the Dunvegan, Paddy-Cadotte, Bluesky-Gething, Cadomin, Baldonnel and Doig formations. Canadian Reserve together with a partner farmed into this block and drilled a potential dual zone oil well.



Pine Creek

Canadian Reserve and partners acquired an additional 1,760 acres of land in this area in 1979 and now holds a 33 $\frac{1}{3}$ % interest in a total of 9,760 acres. One multi-zone natural gas well was drilled during the year.

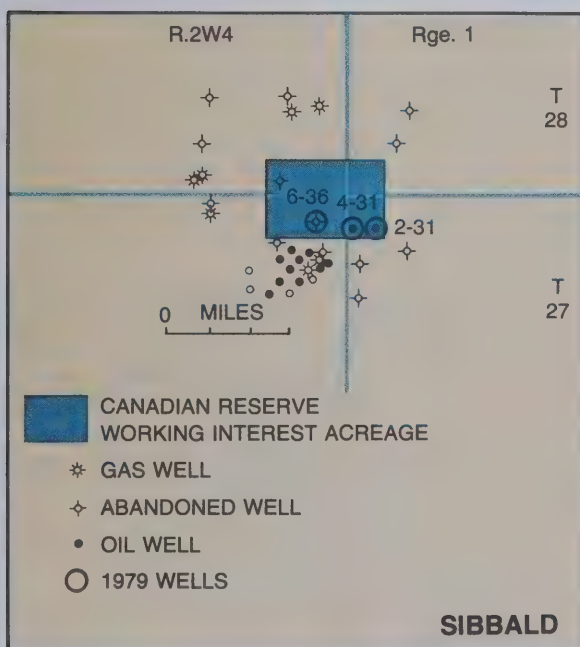
Edson

The Company holds a 45% interest in 2,080 acres offsetting the Edson-Elkton natural gas field and has delineated interesting seismic anomalies in two formations. Further seismic work, drilling and land acquisitions are planned for 1980.



Sibbald

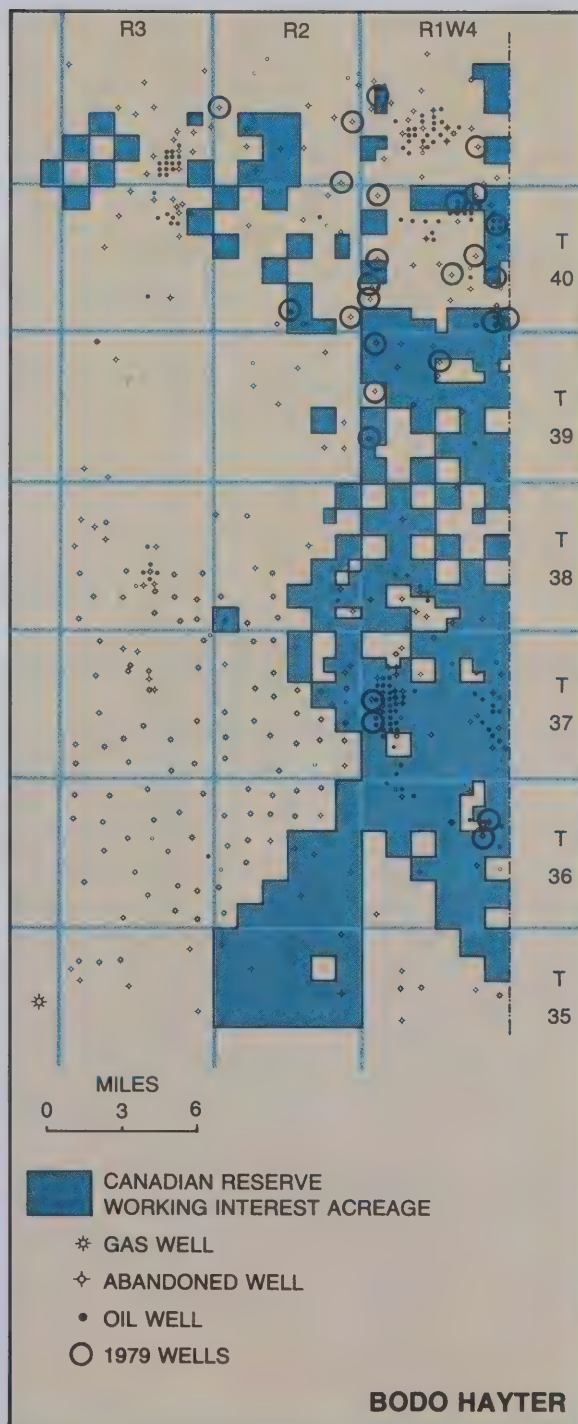
During 1979, Canadian Reserve participated in the drilling and completion of 2 Glauconite sand oil wells in the Sibbald area. These wells average 4 meters of pay and production averages 15 m³/d. Further development drilling is planned for early 1980 on the 3,840 acre block held by Canadian Reserve.



HEAVY OIL AREAS — ALBERTA AND SASKATCHEWAN

Bodo Hayter

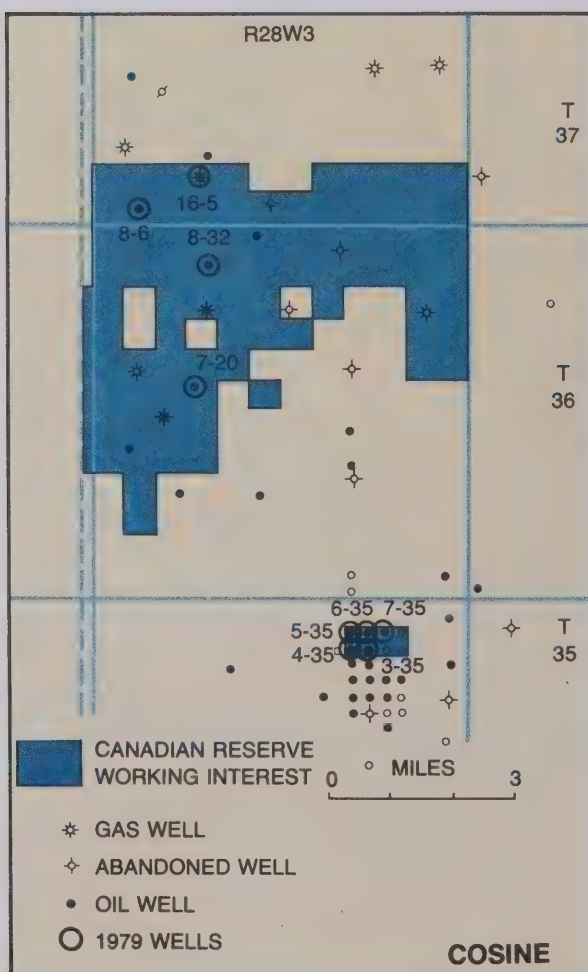
In 1979, Canadian Reserve and partners were faced with a land expiry problem which necessitated an intense drilling program. The program resulted in the discovery of a new Cummings sand oil pool, a new Sparky sand oil pool and 3 natural gas wells. In addition, further delineation of the Bodo McLaren and Sparky oil pools was carried out resulting in 4 oil wells and 1 natural gas well. The Company has interests varying from 12.5% to 50% in this area.



Cosine

In the Cosine South area, Canadian Reserve and partners drilled 5 Bakken sand oil wells. Total production from these wells averages 50 m³/d. The remaining undrilled acreage on this prospect will be developed in early 1980.

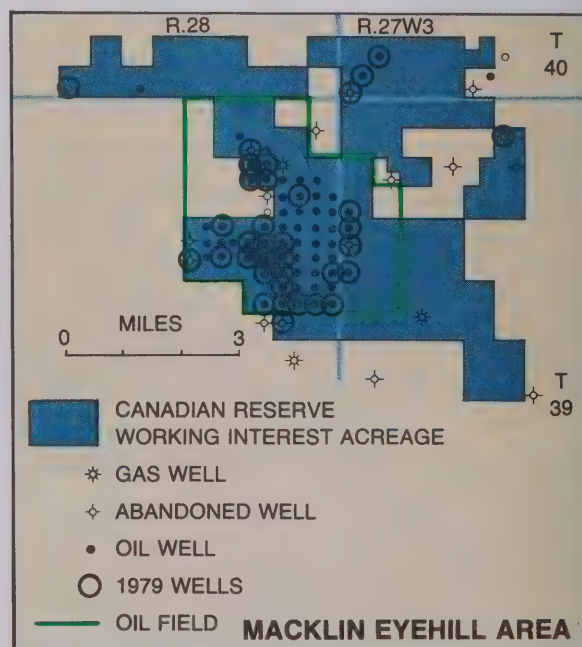
In the Cosine area, drilling on 5,920 acres acquired in 1978 resulted in 3 potential Lloydminster sand oil discoveries. In addition, tests indicated that natural gas bearing sands could be commercial. The Company has interests varying from 25% to 50% in 11,864 acres in this area.



Macklin-Eyehill

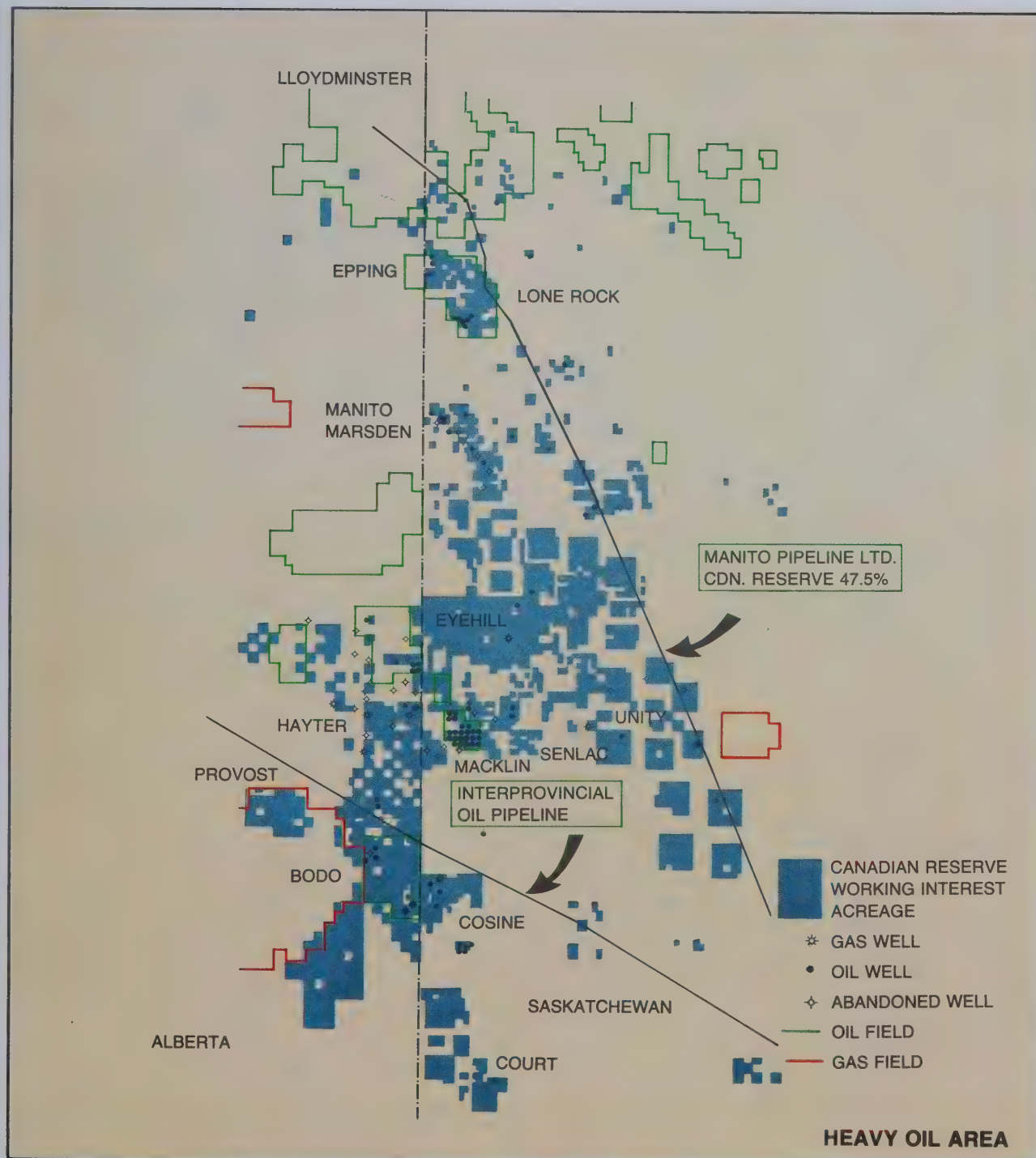
The Company has interests varying from 50% to 100% in 4,960 acres within the Macklin Sparky sand pool. Further development in 1979 resulted in 25 Sparky sand oil wells. Production from this pool now averages 150 m³/d from 33 producing wells. If the evaluation of offset producing wells is encouraging, the Company will carry out an extensive drilling program on the undrilled acreage in this area in 1980.

In the Eyehill-Senlac area Canadian Reserve and partners drilled 3 Sparky oil wells in 1979. The average oil pay in the Sparky is 3 meters and production from each well averages 7 m³/d. The Company has interests varying from 12.5% to 50% in this area.

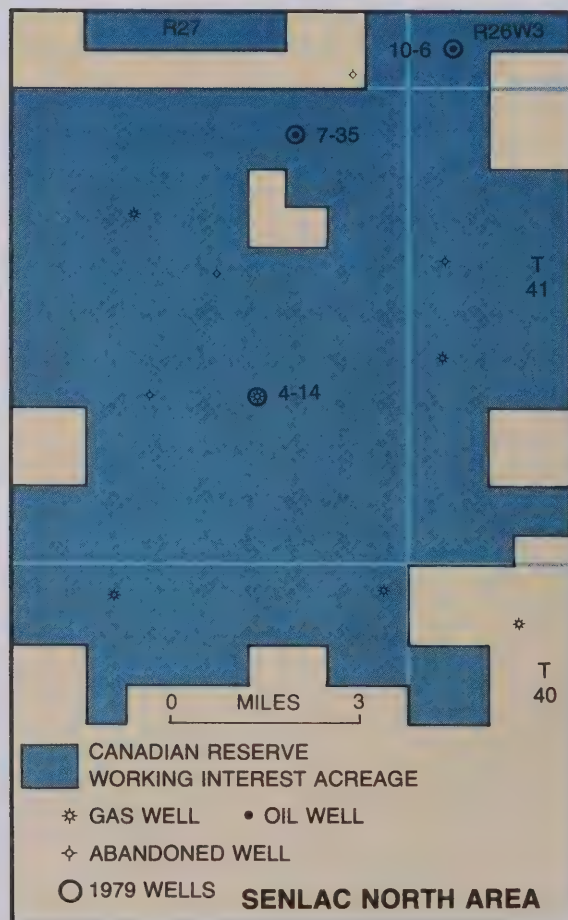


Senlac North

Drilling on farmin acreage acquired in 1978 resulted in the discovery of an oil well with 17 meters of McLaren-Waseca oil pay. The Company subsequently acquired an additional 3,745 acres in this area. Further drilling has extended this trend and a second McLaren-Waseca oil

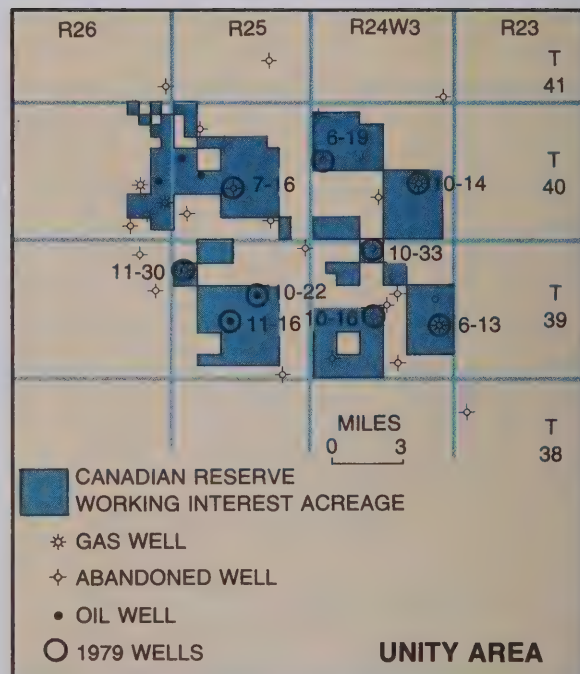


well has been completed. By meeting the drilling commitments on this 1979 farmin acreage, the Company earned 50% in 22,120 acres and has delineated an oil bearing channel sand.



Unity

In 1979, the Company finished drilling the final commitment well on farmin acreage in this area which effectively increased Canadian Reserve's interest to 50% in 33,280 acres. The initial drilling resulted in 3 potential oil wells and 3 potential natural gas wells on this exploratory acreage. Included in these discoveries is a Waseca sand oil pool which Canadian Reserve will further develop in 1980. The Company now has interests ranging from 37.5% to 75% in this area.



Manito-Marsden

Canadian Reserve participated in 16 exploratory and development wells which resulted in 10 potential Sparky oil wells and 1 potential Colony-McLaren oil well. Included are 2 Sparky sand oil wells averaging 10 meters of net pay compared to the normal average of 4 meters. Further drilling is planned to delineate these discoveries. The Company has interests ranging from 50% to 100% in 20,448 acres in this area.

Epping

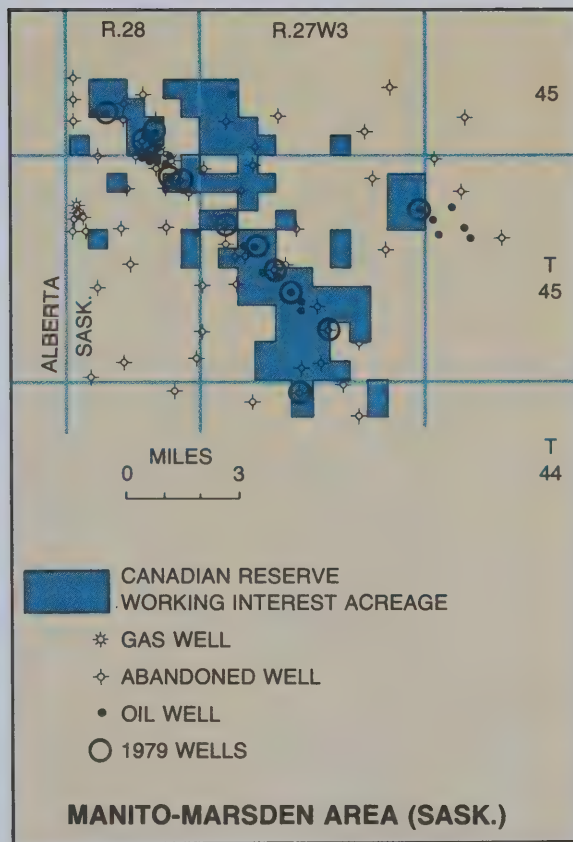
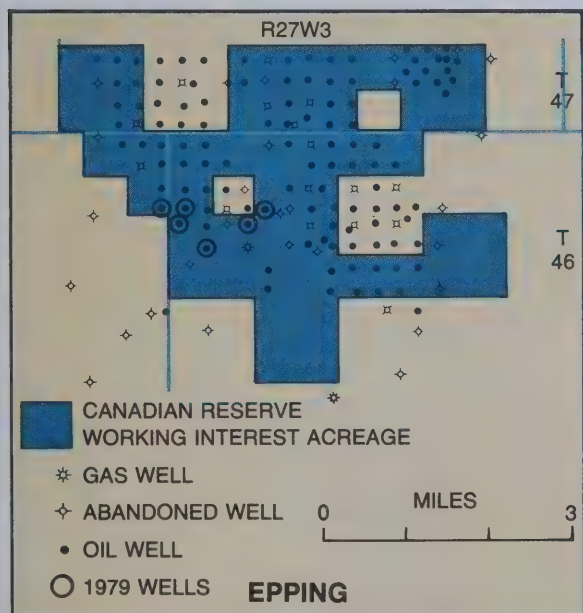
Canadian Reserve and partners participated in 6 development wells resulting in 6 potential Sparky oil wells. Further development is pending on production from these wells. The Company's interest varies from 50% to 100% in this area.

LAND

At December 31, 1979, the Company held working interests in 3,958,967 acres of land of which 1,317,621 acres are net to the Company. The Company also holds royalty interests in 2,081,363 acres of land including lands in west-



ern and northern Canada. The Company's most significant increases in land holdings were in the Trutch area of British Columbia, the Pipestone area of Alberta, and the heavy oil areas in both Alberta and Saskatchewan.



SUMMARY OF ACREAGE HOLDINGS

Area	Working Interest Acres		Royalty Interest Acres
	Gross	Net	
Alberta	793,481	356,733	105,080
Saskatchewan	678,925	256,654	27,598
British Columbia	569,729	137,334	81,047
Manitoba	3,157	1,549	—
Arctic	1,604,624	482,387	1,780,603
East Coast	187,782	37,556	—
Northwest Territories	31,641	17,257	87,035
Yukon	85,810	25,743	—
Ontario	3,818	2,408	—
	3,958,967	1,317,621	2,081,363



Battery Facilities at Lloydminster.

Operations



DRILLING

Exploratory completions totalled 97 wells resulting in 28 oil wells, 15 natural gas wells and 54 dry holes. Canadian Reserve's interest in the successful exploratory completions resulted in 9.2 net oil wells and 3.1 net natural gas wells. The Company participated in the drilling of 158 development wells during 1979, equivalent to 53.2 net wells. Of this number, 44.1 were completed as successful oil wells, 3.9 as successful natural gas wells and 5.2 wells were abandoned. The table illustrates in more detail the drilling program for the Company in 1979.

To ensure rig availability for the continuing high level of activity in the heavy oil areas of Alberta and Saskatchewan, the Company, in partnership with Camaro Drilling Ltd., undertook the construction of a second rig. This rig commenced operation in the summer of 1979.

PRODUCTION AND SALES

During 1979 the gross working interest oil and natural gas liquids sales increased to 987 m³/d from 916 m³/d during the previous year. The increase was the result of the continued development of the Maclin heavy oil pool in Saskatchewan.

Satisfactory progress has been made in construction of the combination fire flood, steam stimulation pilot project at Eyehill, Saskatchewan. At year end all the 25 wells were drilled and the installation of production facilities were nearly complete. Actual pilot operations are expected to commence on May 1, 1980. If the pilot project is successful, the recovery of oil in place could be in the order of 40%. The significance of a successful pilot project in this area is brought into focus by the Company's oil in place in this pool and similar pools at Senlac and North Senlac estimated to be in the order of 36 10⁶m³.



Pumping unit in the heavy oil area of Saskatchewan.

The daily average gross volumes of natural gas produced by the Company in 1979 increased to 637 10³m³/d, an increase from the 1978 level of 512 10³m³/d. This increase is attributable to the North Dahl field being on stream for the full year and to higher gas sales in Alberta.

WELLS DRILLED

	GROSS WELLS		NET WELLS	
	1979	1978	1979	1978
DEVELOPMENT				
Oil	99	71	44.1	40.3
Gas	45	121	3.9	10.5
Dry	14	9	5.2	3.1
	158	201	53.2	53.9
	GROSS WELLS		NET WELLS	
	1979	1978	1979	1978
EXPLORATORY				
Oil	28	17	9.2	7.5
Gas	15	18	3.1	4.6
Dry	54	35	14.0	9.7
	97	70	26.3	21.8
Total Wells	255	271	79.5	75.7

Gross working interest sulphur production during 1979 of 122 tonnes remained essentially the same as the 1978 level. The Company sold 53,956 gross tonnes during 1979, an increase of 27,938 tonnes from sales of 26,018 tonnes during 1978. The increase in sales was attributable to sales from the Company's existing inventory.

PIPELINE TRANSPORTATION

The Company owns an interest in the 115 mile Manito Pipeline Limited pipeline system which transports an oil condensate blend from the Lloydminster area of Alberta to Interprovincial Pipeline Ltd. at Kerrobert for ultimate delivery to Canadian and United States markets.

During 1979, this pipeline delivered 691 10³m³ of blend to the Interprovincial Oil Pipeline, an average of 1,900 m³/d; this was an increase of 210 m³/d from the 1978 average of 1,690 m³/d.

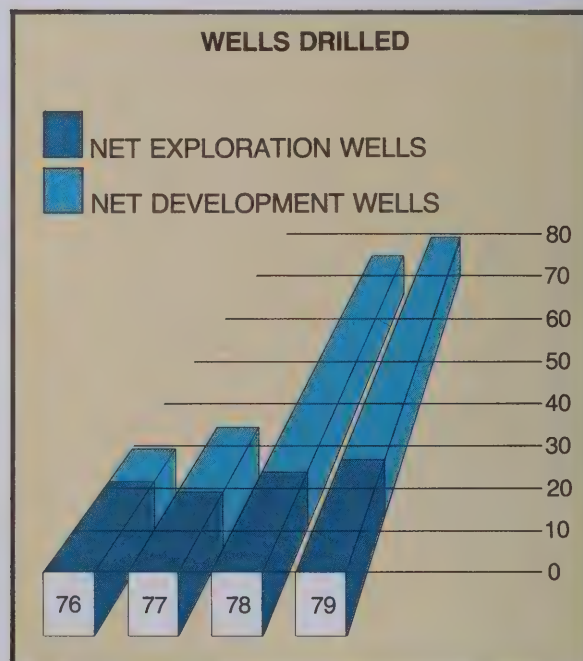
A major expansion of the existing facilities, costing approximately \$2.9 million, is essentially completed. The looping of the line between Dulwich and Lone Rock, the installation of two new pumping stations and the addition to facilities at existing stations will increase the current capacity of 2,100 m³/d blend throughput to 3,800 m³/d blend throughput.

RESERVES

The remaining recoverable hydrocarbon reserves of Canadian Reserve at December 31, 1979, are detailed in the following table. These reserves were estimated by G. S. Monkhouse and Associates Ltd., an independent consulting firm.

The estimated proved and probable reserves include only those which can be classified as proved and probable in accordance with classifications defined by the United States Securities and Exchange Commission.

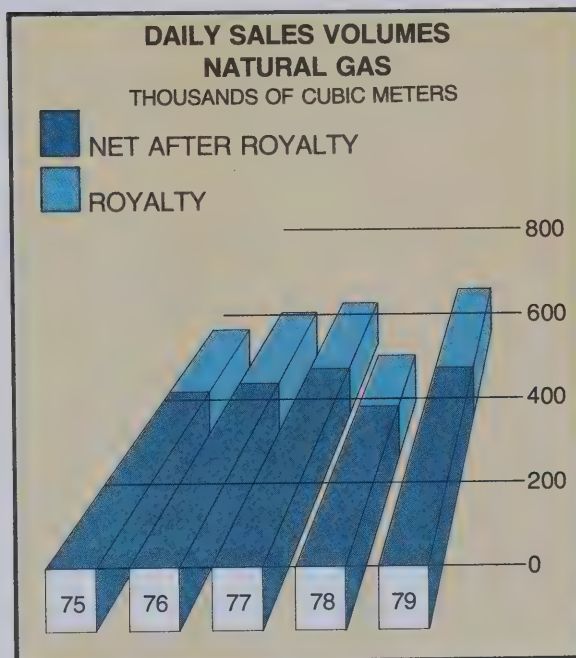
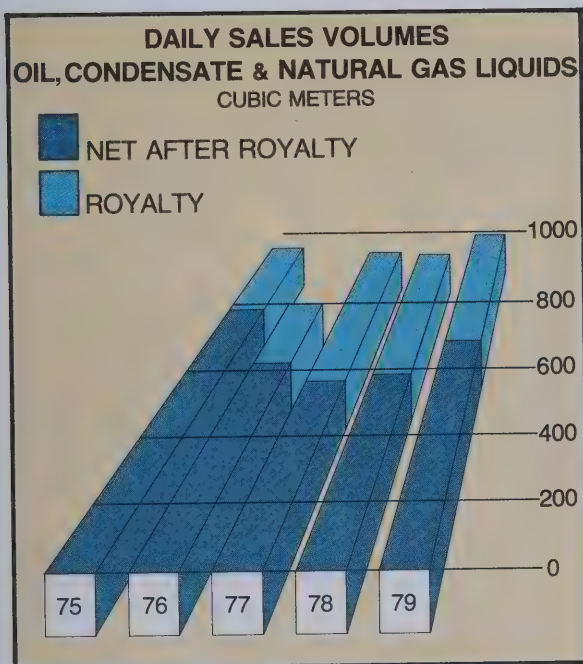
The oil reserves do not include significant volumes of heavy oil which are potentially capable of recovery through thermal recovery techniques. All reserves have been calculated before royalty deductions.



RESERVES

(Before Deducting Royalty)

At December 31, 1979	Natural Gas		
	Oil	Liquids	Gas
	Cubic Meters	Cubic Meters	Thousands of Cubic Meters
PROVED	2,567,140	319,535	5,820,570
PROBABLE . . .	2,634,635	12,110	668,010
TOTAL	5,201,775	331,645	6,488,580

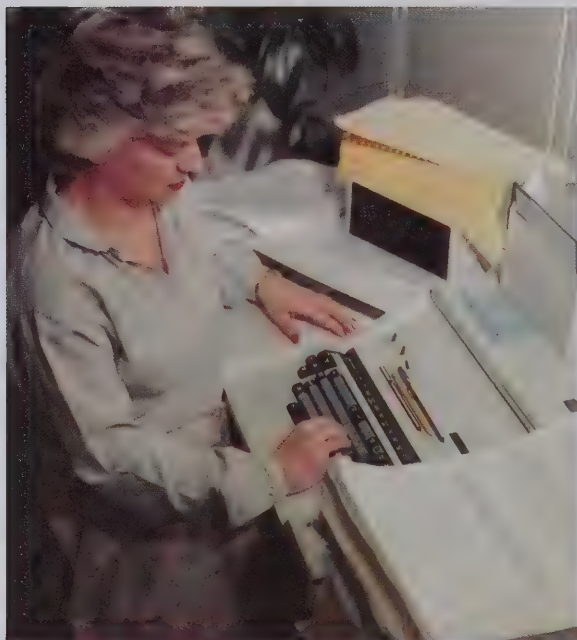


Canadian Reserve Field office at Lloydminster, Alberta.



Heavy Oil Treating Facilities at Lone Rock, Saskatchewan.

Financial Review



GROSS REVENUE

Gross revenue increased \$8,262,000 to \$32,031,000 for the year 1979. Natural gas sales accounted for 50% of this increase with most of the balance attributed to the improvement in heavy oil sales. These increases were distributed evenly between improved sales volumes and prices.

The following table illustrates the allocation of gross revenue as to heavy oil, other oil, and natural gas and its related products.

	1979		1978	
	(thousands of dollars)			
Oil — heavy	\$12,926	40%	\$ 9,703	41%
Oil — other	6,596	21%	5,728	24%
	19,522	61%	15,431	65%
Natural gas	12,245	38%	7,938	33%
Other	264	1%	400	2%
Gross Revenue . .	\$32,031	100%	\$23,769	100%

There was no material change in the geographical allocation of gross revenues as illustrated in the following table. The major share of gross revenue is attributed to the heavy oil areas of Saskatchewan and the natural gas areas of Alberta and northeastern British Columbia.

	1979		1978	
	(thousands of dollars)			
British Columbia . .	\$ 3,905	12%	\$ 2,996	13%
Alberta	14,086	44%	10,043	42%
Saskatchewan	13,438	42%	10,104	43%
Manitoba	602	2%	582	2%
Other	—	—	44	—
Gross Revenue . .	\$32,031	100%	\$23,769	100%

Pursuant to the natural gas contracts which Canadian Reserve has with major purchasers, the purchaser is required to take delivery of a specified volume of natural gas annually or pay for the amount not taken. Payments due for the natural gas not taken in 1979 totalled about \$1,056,000. The purchaser has a period varying from 4 to 10 years in which to take delivery of the natural gas paid for, but not taken, or the payment is forfeited to the Company. Accounting procedures require that this amount not be taken into income until either delivery is taken by the purchaser or the amount is forfeited. The total of such income deferred to the end of 1979 is \$1,596,000.

CASH FLOW

Cash flow generated from operations, which consists of net income before deduction of all non-cash items, increased \$3,398,000 or 25% to \$17,111,000 for the year. These funds, amounting to \$1.74 per share, were equivalent to approximately 91% of the Company's capital expenditures during the year.



DEPRECIATION AND DEPLETION

Depreciation and depletion expenses increased 60% to \$5,678,000. Write-offs for oil and natural gas properties and production equipment are based on the unit-of-production method.

Under this method natural gas volumes are converted to equivalent cubic meters of oil based on the relative BTU content of each. The net book value of oil and natural gas properties is divided by the total equivalent cubic meters of proved oil reserves and multiplied by the total equivalent cubic meters of sales to determine the write-offs for the current year.

With the increased cost of finding and developing new reserves, the unit cost of these reserves continues to increase resulting in corresponding increases in depreciation and depletion expense. The increased volumes sold in 1979 further added to the amount expensed.

INCOME TAXES

The provision for income taxes increased for the year at a rate of 8%. This provision consists of two categories, current and deferred.

Current income taxes are the taxes payable for the year based on estimated taxable income. These taxes increased about 43% in 1979, primarily due to the improvement in cash income at a faster rate than deductible capital expenditures, and certain government tax incentives having reached their maximum.

Deferred taxes consist of the additional tax that would be payable if taxes were calculated on the basis of accounting income rather than taxable income. Because capital expenditures are being written off at a greater rate for tax than for accounting purposes, provision must be made in the accounts to offset the taxes pay-

able in later years when the opposite situation will occur. Deferred taxes provided for the year decreased 4% to \$3,200,000.

The basic federal tax rate is 46% less an abatement of 10% for provincial taxes. The provincial rates vary but the composite rate for the Company is about 12% for a basic combined federal and provincial rate of 48%. The disallowance as a deduction of payments to the crown for royalties by the federal government, less the rebates by the provinces added a net 6%. The depletion allowance and investment tax credit reduced the effective tax rate 18% to 36% for 1979 as compared to 39% for 1978 for the combined current and deferred tax provision.

NET INCOME

Net income increased \$1,341,000 to \$8,226,000 for 1979. This resulted in \$.84 per share in 1979 as compared to \$.71 per share in 1978.

WORKING CAPITAL

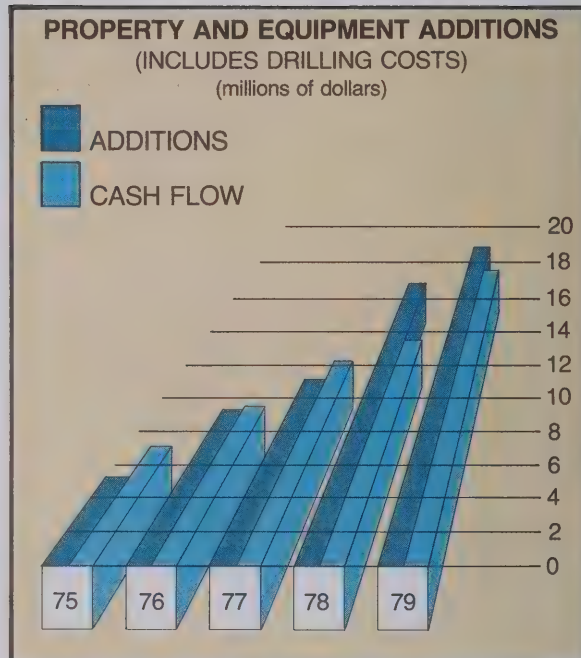
Working capital at year end totalled \$9,900,000 compared to \$7,540,000 a year earlier. The working capital ratio remained at approximately 2 to 1.

Accounts receivable year end balances reflect the increased prices for heavy oil and natural gas sales. The inventory of materials and supplies has been increased mainly to prepare for the drilling program in the heavy oil area. Cash balances have been kept as low as practical to minimize the carrying charges on funds borrowed.

PRODUCTION LOANS

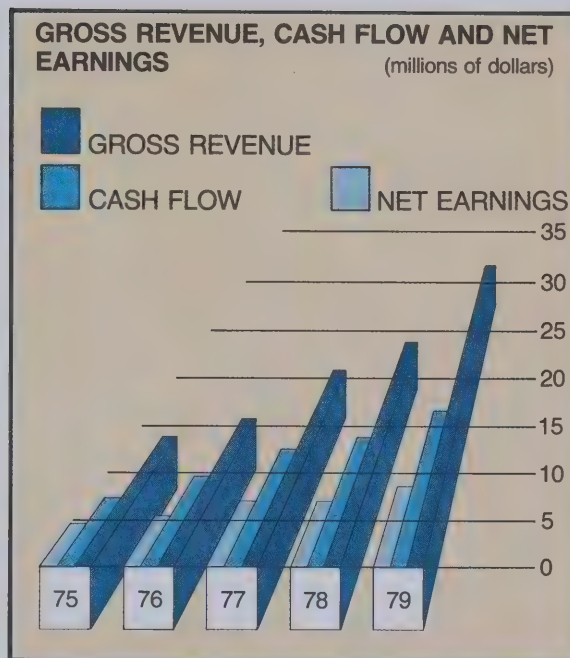
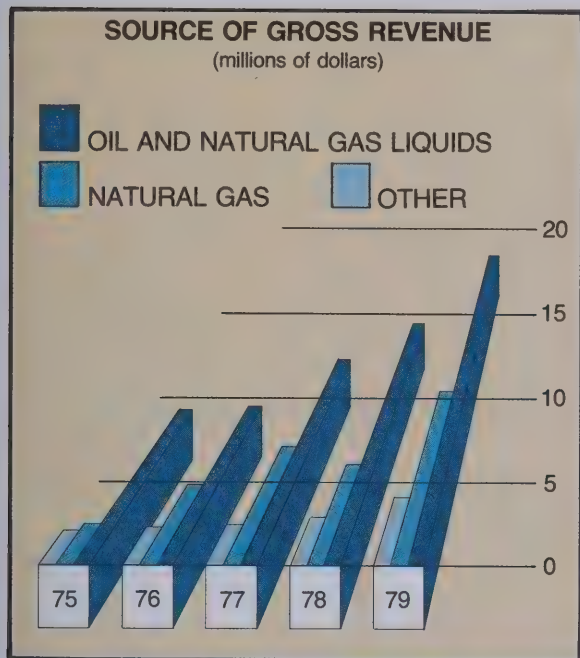
Production loans at December 31, 1979 were \$10,316,000 of which \$2,050,000 is considered payable during 1980 and thus has been included in the current liabilities. This increase of \$2,900,000 over the previous year end was required to finance the increased exploration and development.

In addition to the production loans there were \$2,500,000 of short term bank loans outstanding at year end.



DISTRIBUTION OF PROPERTY AND EQUIPMENT ADDITIONS

1979			1978	
(thousands of dollars)				
Drilling of wells	\$ 8,752	46%	\$ 7,504	43%
Leasehold acquisition	3,492	18%	3,063	18%
Lease and well equipment	3,544	19%	3,044	18%
Other facilities	1,122	6%	1,165	7%
Geological geophysical	1,062	6%	955	6%
Exploration overhead	759	4%	845	5%
Delay rentals	136	1%	535	3%
	\$18,867	100%	\$17,111	100%



PROPERTY AND EQUIPMENT ADDITIONS

Property and equipment additions in 1979 amounted to \$18,867,000, up 10% from 1978.

Increased emphasis was placed on Saskatchewan heavy oil projects, while expenditures dropped considerably in British Columbia. The geographical distribution for 1979 (1978) was Saskatchewan 52% (35%), Alberta 35% (39%), British Columbia 12% (25%) and foreign and other 1% (1%).

1980 OUTLOOK

The outlook for 1979 in last year's report proved to be conservative with regard to revenues, as all major income categories were above our estimates.

Preliminary estimates for 1980 indicate increases around the 10% - 15% range in the

major income categories. This assumes continuing marketing problems for natural gas and further improvement in heavy oil sales. Capital expenditures are expected to be about the same as 1979 with continued emphasis on heavy oil.

Balance Sheet

(Incorporated under the laws of the Province of Alberta)

DECEMBER 31, 1979

(with comparative figures as at December 31, 1978)

ASSETS

	1979	1978
CURRENT		
Cash	\$ 567,087	\$ 313,779
Accounts receivable	12,924,442	11,564,106
Inventories of crude oil and sulphur	1,861,475	1,353,591
Materials and supplies	4,580,605	1,989,956
	19,933,609	15,221,432
PROPERTY AND EQUIPMENT (Note 2)	113,400,545	94,652,336
Less accumulated depletion and depreciation	33,830,439	28,224,222
	79,570,106	66,428,114
	\$99,503,715	\$81,649,546

On behalf of the Board:

 Director

 Director

See accompanying notes



LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
CURRENT		
Bank loan	\$ 2,500,000	
Accounts payable and accrued liabilities	5,483,927	\$ 6,196,856
Current portion of production loans (Note 3)	2,050,000	1,485,000
	10,033,927	7,681,856
PRODUCTION LOANS (Note 3)	8,266,134	5,931,300
DEFERRED GAS REVENUE (Note 4)	1,596,961	540,635
DEFERRED INCOME TAXES	19,611,000	16,411,000
SHAREHOLDERS' EQUITY (Note 5)		
Share capital		
Authorized		
20,000,000 common shares of \$1.00 par value each		
Issued		
9,837,137 shares (1978 - 9,664,837)	9,837,137	9,664,837
Contributed surplus	6,474,690	5,962,524
Retained earnings	43,683,866	35,457,394
	59,995,693	51,084,755
	\$99,503,715	\$81,649,546

Statement of Earnings and Retained Earnings

YEAR ENDED DECEMBER 31, 1979

(with comparative figures for 1978)

	1979	1978
Revenue	\$32,030,996	\$23,768,971
Expenses		
Operating	10,000,572	6,823,736
General and administrative	2,103,685	1,739,939
Depreciation	1,577,175	1,095,639
Depletion	4,101,100	2,461,218
Interest	1,317,082	392,197
	19,099,614	12,512,729
Earnings before income taxes	12,931,382	11,256,242
Income taxes		
Current	1,504,910	1,053,742
Deferred	3,200,000	3,318,000
	4,704,910	4,371,742
Net earnings for the year	8,226,472	6,884,500
Retained earnings, beginning of year	35,457,394	28,572,894
Retained earnings, end of year	\$43,683,866	\$35,457,394
Earnings per share (Note 7)	\$ 0.84	\$ 0.71

See accompanying notes

Statement of Changes in Financial Position



YEAR ENDED DECEMBER 31, 1979

(with comparative figures for 1978)

	1979	1978
Source of working capital		
Net earnings for the year	\$ 8,226,472	\$ 6,884,500
Add depletion, depreciation, deferred income taxes and other items not affecting working capital	8,884,096	6,828,708
Funds from operations	17,110,568	13,713,208
Deferred gas revenue	1,056,326	540,635
Production loans	4,935,000	5,931,300
Issue of common shares for cash	684,466	62,356
Proceeds from sale of equipment	40,578	198,820
	23,826,938	20,446,319
Application of working capital		
Additions to property and equipment	18,866,666	17,111,389
Reduction of production loans	2,600,166	290,000
	21,466,832	17,401,389
Increase in working capital	2,360,106	3,044,930
Working capital, beginning of year	7,539,576	4,494,646
Working capital, end of year	\$ 9,899,682	\$ 7,539,576

See accompanying notes

Notes to Financial Statements

DECEMBER 31, 1979

1. Summary of significant accounting policies

Inventories

Inventories of crude oil and sulphur are carried at the lower of cost and net realizable value. Materials and supplies are carried at average cost.

Property and equipment

The Company follows the full cost method of accounting wherein all costs related to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized.

Depletion and depreciation

Capitalized costs of oil and gas properties including production equipment are charged against earnings on the unit of production method using estimated proved oil and gas reserves. Certain plants, pipelines and other equipment are depreciated on the straight line method at rates varying from 5% to 20%.

3. Production loans

The Company has pledged production from certain producing properties as security for its production loans which bear interest at 1/2% above the current bank prime rate. Repayments of these loans are expected to amount to approximately \$2,050,000 in each of the next three years with the remaining balance due in 1983.

4. Deferred gas revenue

Under the terms of contracts for the sale of the Company's natural gas, purchasers are required to pay for minimum quantities of gas each contract year. Due to lower than anticipated demand, buyers had to reduce gas purchases below minimum contract quantities and accordingly, the Company received \$1,056,326 cash (1978 - \$540,635) for gas not delivered. Buyers are required to take delivery of these gas deficiencies within periods ranging from four to ten years or to forfeit their payments.

2. Property and equipment

	1979			1978
	Investment at cost	Accumulated depletion and depreciation	Net investment	Net investment
Oil and gas properties	\$ 83,116,799	\$23,256,789	\$59,860,010	\$49,826,091
Plants and production equipment	23,642,181	8,386,018	15,256,163	12,677,222
Distributing pipelines	4,415,768	1,621,335	2,794,433	2,671,237
Other	2,225,797	566,297	1,659,500	1,253,564
	<u>\$113,400,545</u>	<u>\$33,830,439</u>	<u>\$79,570,106</u>	<u>\$66,428,114</u>



5. Stock option plan

During the year, options to purchase 69,000 shares were granted and options to purchase 25,200 shares were cancelled. As a result of options exercised during the year, 172,300 shares were issued for \$684,466 cash of which \$512,166 was credited to contributed surplus. At December 31, 1979, options granted to officers and employees to purchase 206,300 shares were outstanding. These options are exercisable at various dates to August, 1989 at prices ranging from \$2.03 to \$15.98 per share. In addition, the Company has reserved 66,700 shares for the granting of future options to officers and employees.

6. Statutory information

Directors and senior officers received remuneration and benefits amounting to \$599,755 during 1979 (\$450,518 in 1978).

7. Earnings per share

Earnings per share are based on the average number of shares outstanding during the year. The exercise of the outstanding share options would have no material dilutive effect.

8. Comparative figures

Certain of the 1978 figures have been reclassified to conform with the method of presentation adopted in 1979.

AUDITORS' REPORT

To the Shareholders of
Canadian Reserve Oil and Gas Ltd.

We have examined the balance sheet of Canadian Reserve Oil and Gas Ltd. as at December 31, 1979 and the statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young, Clarkson, Gordon & Co.

Calgary, Canada
February 4, 1980

ARTHUR YOUNG, CLARKSON, GORDON & CO.
Chartered Accountants

Five Year Summary

FINANCIAL	1979	1978	1977	1976	1975
Gross Revenue	\$32,030,996	\$23,768,971	\$21,297,625	\$16,111,028	\$13,556,358
Cash Flow	17,110,568	13,713,208	12,243,540	9,401,042	7,146,727
Depreciation and Depletion	5,678,275	3,556,857	3,354,019	2,706,794	2,165,701
Deferred Taxes	3,200,000	3,318,000	2,173,000	1,500,000	650,000
Net Earnings	8,226,472	6,884,500	6,705,417	5,197,614	4,319,334
Per Share					
Gross Revenue	3.26	2.46	2.21	1.67	1.41
Cash Flow	1.74	1.42	1.27	.98	.74
Net Earnings	.84	.71	.70	.54	.45
Property and					
Equipment Additions	18,866,666	17,111,389	11,199,096	9,177,555	5,275,725
Working Capital	9,899,682	7,539,576	4,494,646	3,919,366	3,280,956
Outstanding Shares	9,837,137	9,664,837	9,648,437	9,640,437	9,635,037

OPERATING

*Oil and Natural Gas Liquids

Sales — M³

Gross Working Interest	360,301	334,348	337,694	289,207	348,115
Per Day	987	916	925	790	954
Net Working Interest	243,947	212,050	208,314	224,676	281,657
Per Day	669	582	571	614	772

**Natural Gas Sales — 10³ M³

Gross Working Interest	232,463	187,487	227,176	220,271	204,712
Per Day	637	512	623	602	561
Net Working Interest	175,512	140,688	174,088	164,570	157,422
Per Day	484	385	477	450	431

Sulphur Sales — Tonnes

Gross Working Interest	53,956	26,018	52,495	60,569	42,983
Per Day	148	71	144	166	118
Net Working Interest	42,972	20,751	40,521	50,299	36,433
Per Day	118	57	111	137	100

Wells Drilled — Gross (Net)

Oil	127(53)	88(48)	35(15)	21(8)	23(12)
Gas	60(7)	139(15)	61(9)	48(10)	7(2)
Dry	68(19)	44(13)	30(12)	30(12)	26(10)

Total	255(79)	271(76)	126(36)	99(30)	56(24)
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*M³ — cubic meters

**10³ M³ — thousands of cubic meters

Corporate Information



DIRECTORS

R. Bruce Bailey, Calgary

President, Canadian Reserve Oil and Gas Ltd.

Cortlandt S. Dietler, Denver

President, Western Crude Oil, Inc.

Harry Hole, Edmonton

Vice-President, Lockerbie and Hole Western Limited

Maclean E. Jones, Q.C., Calgary

Partner, Jones, Black & Company

Paul D. Meadows, Denver

President and Chief Executive Officer, Reserve Oil and Gas Company

John R. McMillan, Los Angeles

Chairman of the Board, Reserve Oil and Gas Company

DIRECTOR EMERITUS

Howard C. Pyle, Los Angeles

Petroleum Investments

OFFICERS

John R. McMillan

Chairman of the Board

Paul D. Meadows

Vice-Chairman of the Board and Chief Executive Officer

R. Bruce Bailey

President

Joe R. Dundas

Senior Vice-President

David W. Talbot

Vice-President and Secretary-Treasurer

Ronald W. Ambrose

Vice-President — Exploration

Bruce F. Sim

Vice-President — Legal and Administration

Gus Czeman

Vice-President — Operations

Grant D. Richards

Assistant Secretary-Treasurer and Controller

Tom L. Deen

Assistant Secretary

HEAD OFFICE

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REGISTRAR

Guaranty Trust Company of Canada

401 - 9th Avenue S.W.

Calgary, Alberta T2P 3C5

TRANSFER AGENT

Guaranty Trust Company of Canada

Calgary, Alberta; Vancouver, British Columbia;

Toronto, Ontario; Montreal, Quebec

STOCK EXCHANGE

Toronto Stock Exchange

Canadian Reserve Oil and Gas Ltd.
1979 ANNUAL REPORT